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INFO OCT-01 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00 SSO-00

USIE-00 INRE-00 AID-05 CEA-01 COME-00 EB-07 EA-07

FRB-03 INR-07 IO-10 NEA-10 OPIC-03 SP-02 TRSE-00

CIEP-01 LAB-04 SIL-01 OMB-01 FEA-01 ERDA-05 FPC-01

H-02 INT-05 L-03 NSC-05 PM-04 SAM-01 OES-03 SS-15

STR-04 /124 W

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C O N F I D E N T I A L SECTION 01 OF 03 OECD PARIS 25870

PASS TREASURY FOR PARSKY AND WIDMAN

E. O. 11652: GDS

TAGS: ECON, EFIN, ENRG, OECD

SUBJECT: OCTOBER 2 MEETING OF IEA AD HOC GROUP
ON FINANCIAL AND INVESTMENT ISSUES

REF: (A) IEA DOCUMENT IEA/GB/FIN(75)7

(B) IEA DOCUMENT IEA/GB/FIN/M(75)2

(C) OECD PARIS 25174

(D) OECD DOCUMENT CPE/TWP(75)12

(E) OECD DOCUMENT CPE/TWP(75)10

(F) IEA DOCUMENT IEA/GB(75)65

(G) OECD PARIS 25688

1. SUMMARY: THE IEA AD HOC GROUP ON FINANCIAL AND
INVESTMENT ISSUES (FII) HELD ITS FIFTH MEETING ON
OCTOBER 2 UNDER CHAIRMANSHIP OF PARSKY (US). MAIN
FOCUS OF MEETING WAS PREPARATION OF CHAIRMAN'S REPORT
TO IEA GOVERNING BOARD (SEPTEL). DISCUSSION OF REPORT
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LED TO EXTENSIVE EXCHANGE OF VIEWS ON (A) APPROPRIATE

FUTURE ROLE OF FII IN DEVELOPING AND COORDINATING INDUSTRIALIZED COUNTRY POSITIONS ON FINANCIAL AND INVESTMENT ISSUES RELATING TO ENERGY FOR FORTHCOMING PRODUCER/CONSUMER DIALOGUE AND (B) RELATIONSHIP OF FII WITH OTHER FORA, PARTICULARLY THE TEMPORARY WORKING PARTY OF THE OECD ECONOMIC POLICY COMMITTEE (TWP). GROUP ALSO (A) RECEIVED ORAL REPORT BY TWP CHAIRMAN (VANYPERSELE) ON WORK OF TWP (INCLUDING ON STATUS OF REFDOS D AND E WHICH FII ANNEXED TO ITS REPORT TO GOVERNING BOARD); (B) BRIEFLY REVIEWED IEA SECRETARIAT PAPER ON P/C DIALOGUE (REFDOC F), AND IDENTIFIED AREAS WHERE FURTHER WORK NEEDS TO BE DONE IN PREPARATION FOR DIALOGUE.

2. PRIOR TO MEETING SECRETARIAT DISTRIBUTED DRAFT CHAIRMAN'S REPORT TO GOVERNING BOARD (REFDOC A) WHICH HAD BEEN PREPARED TO SERVE AS STARTING POINT FOR FII'S DISCUSSION ON THIS ITEM. THE DRAFT SUGGESTED LANGUAGE IDENTIFYING FINANCIAL AND INVESTMENT ISSUES, PROPOSED LINES TO TAKE AND COMMENTS IN FORM SIMILAR TO MARCH REPORT OF FII CHAIRMAN (REFDOC B). AT BEGINNING OF MEETING OBJECTIONS ON FORMAT OF DRAFT REPORT RAISED STRONGLY BY NUMBER OF DELEGATIONS, MOST NOTABLY ITALY, NETHERLANDS, SWEDEN, UK AND BY OECD SECRETARIAT (MARRIS), ARGUING THAT FII REPORT SHOULD NOT ATTEMPT TO ADDRESS SUBSTANCE OF ISSUES THAT ARE BEING HANDLED IN TWP. THEY FELT THIS WOULD BE DUPLICATIVE AND WOULD CAUSE CONFUSION IF RESULT WAS TO CHANGE ANY SUBSTANTIVE LANGUAGE ALREADY AGREED IN WIDER TWP FORUM OR TO PREJUDGE ISSUES NOT YET RESOLVED IN TWP. IN LIGHT THESE COMMENTS, FII AGREED THAT AT THIS TIME IT SHOULD SUBMIT ONLY BRIEF REPORT TO GB (SEPTTEL) WHICH CONTAINS NO DETAILED LISTING OF LINE TO TAKE BUT RATHER COMMENTS ON STATUS OF WORK IN FII AND OTHER FORA, TRANSMITS DOCUMENTS AVAILABLE TO DATE AND MAKES SUGGESTIONS ON FUTURE WORK THAT NEEDS TO BE DONE.

3. THE EXCHANGE OF VIEWS ON NATURE OF FII'S REPORT LED TO WIDER RANGING DISCUSSION CONTINUING THROUGH MUCH OF MEETING ON APPROPRIATE ROLE OF FII AND ITS CONFIDENTIAL

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RELATIONSHIP WITH TWP, PARTICULARLY WITH RESPECT TO BACKSTOPPING PROPOSED FOURTH COMMISSION ON FINANCIAL MATTERS. THIS DISCUSSION REVEALED CONSIDERABLE CONFUSION ON THESE ISSUES ON PART OF SOME DELEGATES AND RELUCTANCE TO RUSH INTO TAKING ANY FIRM POSITIONS ON PART OF OTHERS, PARTICULARLY IN LIGHT OF CHANGES IN SCOPE OF DIALOGUE AND IN CONSUMER COUNTRY ATTITUDES TOWARDS DIALOGUE SINCE

THE FII WAS FORMED EARLY LAST YEAR. NETHERLANDS
DELEGATE EXPRESSED STRONGEST QUESTIONING OF
FUTURE ROLE FOR FII, ARGUING NEED FOR ONE OVERALL
GROUP IN OECD TO BACKSTOP FOURTH COMMISSION. ITALY,
UK AND NORWAY STRESSED CHANGED CIRCUMSTANCES IN
DIALOGUE, AND BACKED BY SEVERAL OTHER DELEGATES
ARGUED THAT MEMBERS SHOULD AWAIT DEVELOPMENTS OF NEXT

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MONTH OR SO BEFORE TRYING TO DETERMINE ROLE OF FII.
DANES ARGUED STRONGLY THAT TIME TO DEVELOP SUBSTANTIVE
POSITIONS FOR THE DIALOGUE IS LIMITED AND THAT FII
SHOULD GET ON WITH THIS JOB. GERMANS, SWISS,
CANADIANS, AND JAPANESE TO VARYING DEGREES STRESSED
CONTINUING IMPORTANCE OF FII'S COORDINATING AND
SCREENING FUNCTION AND ITS ROLE IN ASSURING WORK
NEEDED BY IEA GB ON ENERGY RELATED FINANCIAL ISSUES
IS BEING DONE ADEQUATELY EITHER IN OTHER FORA OR IF

NECESSARY IN FII.

4. IN SUMMING UP, CHAIRMAN STATED THAT THE FII WILL CONTINUE TO SERVE AS A CHANNEL TO THE IEA'S GOVERNING BOARD ON ALL FINANCIAL AND INVESTMENT ISSUES RELATING TO ENERGY, PROVIDING A SCREENING AND CO-ORDINATING MECHANISM ON THOSE ISSUES, ASSURING THAT NECESSARY WORK WAS BEING DONE ON THEM IN A RELEVANT AND TIMELY MANNER IN OTHER FORA, STANDING READY, IF NECESSARY, CONFIDENTIAL

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TO UNDERTAKE SUBSTANTIVE WORK ITSELF. THE FII WILL HAVE TO PROVIDE TO THE GB DETAILED SUBSTANTIVE POSITIONS ON THE RELEVANT ISSUES PRIOR TO THE COMMENCEMENT OF THE SUBSTANTIVE PHASE OF THE DIALOGUE. FURTHER WE MUST MAKE SURE THAT ADEQUATE LINKAGE BE PROVIDED BETWEEN THE FII AND ANY OTHER GROUP THAT MAY PROVIDE BACK-STOPPING TO THE PROPOSED FOURTH COMMISSION ON FINANCIAL QUESTIONS. (AGREED LANGUAGE TO THIS EFFECT WAS INCORPORATED INTO THE FII REPORT TO THE GB. NEVERTHELESS, THE BASIC QUESTIONS DISCUSSED IN PARAGRAPH 3 ABOVE REMAIN UNRESOLVED AND ARE LIKELY TO RECEIVE ATTENTION AT UPCOMING GB MEETING.)

5. CHAIRMAN OF TWP, VANYPERSELE, PRESENTED DETAILED ORAL REPORT ON WORK TO DATE OF TWP AND FUTURE WORK PROGRAM (SEE REFTEL C). VANYPERSELE SUMMARIZED OECD SECRETARIAT REDRAFTS BASED ON SEPTEMBER 24-25 TWP DISCUSSIONS OF OIL PRICE INDEXATION PAPER (REFDOC D) AND INVESTMENT OF OIL PRODUCER SURPLUSES PAPER (REFDOC E). THESE PAPERS, WHICH ARE STILL PROVISIONAL, WERE ATTACHED BY FII AS ANNEXES TO REPORT TO GB. VANYPERSELE NOTED THAT HE HOPED TO HAVE TWP FINALIZE AT NOVEMBER MEETING PAPER ON ECONOMIC EFFECTS OF HIGHER OIL PRICES WHICH IS NOW BEING DRASTICALLY REWRITTEN (APPARENTLY MUCH ALONG THE LINES URGED BY US DEL TO TWP AS REPORTED REFTEL C PARA 3). OECD SECRETARIAT (MARRIS) STATED HE WILL SUGGEST TO CHAIRMAN OF WP2 OF EPC THAT NEXT MEETING THIS COMMITTEE SHOULD HAVE A TOUR-DE-TABLE ON CURRENT VIEWS ON THE MEDIUM AND LONGER TERM EFFECTS OF HIGHER OIL PRICES TO PROVIDE ELEMENTS OF EVENTUAL UPDATING OF EARLIER REPORT BY WP2 TO EPC ON THIS SUBJECT.

6. JAPANESE DELEGATE STATED IT IS VERY IMPORTANT THAT CONSUMERS DEVELOP QUICKLY AN EVALUATION OF THE LIKELY IMPACT OF LATEST 10 PERCENT INCREASE IN OIL PRICES. VANYPERSELE AGREED THAT TWP MIGHT LOOK INTO THIS. HE THOUGHT PUBLIC COMMENTS ON THIS ISSUE SEEMED MUCH TOO COMPLACENT.

7. FII HELD BRIEF DISCUSSION ON STRUCTURE AND
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COVERAGE OF THE IEA SECRETARIAT PAPER ON THE PRODUCER/
CONSUMER DIALOGUE (REFDOC F). THE GROUP AGREED TO
RECOMMEND TO THE GOVERNING BOARD THAT ON
FINANCIAL AND INVESTMENT TOPICS THE DOCUMENT SHOULD NOT

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ATTEMPT TO SET FORTH SUBSTANTIVE POSITIONS PRIOR TO
THEIR BEING FURTHER DEVELOPED IN THE APPROPRIATE FORA.

8. THE FII IDENTIFIED FOUR AREAS ON WHICH FURTHER WORK

WILL BE NECESSARY:

(A) THE ABSORPTIVE CAPACITY OF OIL PRODUCING COUNTRIES AND THE DEVELOPMENT OF THEIR ECONOMIES. NOTING THE US PAPER ON ABSORPTIVE CAPACITY AS A USEFUL INPUT, VANYPERSELE AGREED THAT THE TWP WILL DO THE SUBSTANTIVE WORK ON THIS SUBJECT.

(B) THE TERMS OF TRADE BETWEEN OECD AND OPEC COUNTRIES. NOTING PAPERS BY THE US, UK AND OECD SECRETARIAT, IT WAS AGREED TWP WOULD ALSO WORK ON THIS ISSUE.

(C) TECHNOLOGICAL AND FINANCIAL ASSISTANCE TO THE NON OIL PRODUCING DEVELOPING COUNTRIES. IT WAS AGREED THAT THIS ISSUE FALLS WITHIN THE COMPETENCE OF THE OECD NORTH-SOUTH GROUP BUT THAT AT SOME TIME THE CONFIDENTIAL

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FINANCIAL ASPECTS OF THIS ISSUE MAY HAVE TO BE ADDRESSED IN THE TWP AND/OR THE FII.

(D) THE EQUILIBRIUM PRICE FOR OIL AND THE ECONOMICS OF OIL PRICE DETERMINATION. IT WAS AGREED THAT THIS QUESTION IS OF CENTRAL IMPORTANCE TO THE DIALOGUE. THE FII RECOMMENDED TO THE GOVERNING BOARD THAT THIS ISSUE BE REFERRED TO THE APPROPRIATE IEA GROUP (WHICH WOULD NOT BE THE FII) AND THE FII WOULD WANT TO REVIEW THE RESULTS OF SUCH A STUDY.

9. DATE OF NEXT MEETING OF FII WAS LEFT OPEN. THE CHAIRMAN NOTED A MEETING WOULD BE NEEDED SOMETIME AFTER THE UPCOMING GOVERNING BOARD MEETING AND THE SECOND PREPCON, WHICH TOGETHER PRESUMABLY WILL CLARIFY FUTURE REQUIREMENTS FOR WORK BY FII AND ITS APPROPRIATE RELATIONSHIP TO THE WORK OF BACKSTOPPING THE FOURTH COMMISSION.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN INVESTMENT, ENERGY, IMPORTERS, EXPORTERS, COMMITTEE MEETINGS, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OECDP25870
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750347-0799
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751074/aaaacodt.tel
Line Count: 315
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 23 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 MAY 2003 by CunninFX>; APPROVED <07 OCT 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OCTOBER 2 MEETING OF IEA AD HOC GROUP ON FINANCIAL AND INVESTMENT ISSUES
TAGS: ECON, EFIN, ENRG, OECD
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006